

Implementation of Tiering Requirements

Implementation of the tiered reimbursement structure established by the PRWORA depends heavily on the sponsors of family child care homes. Sponsors must classify homes as Tier 1 or Tier 2. For Tier 2 homes, sponsors must, at the provider's option, determine whether any of the children served qualify for reimbursement at Tier 1 rates and, if so, sponsors must determine how many of the meals that providers serve are to be reimbursed at each rate.

Program regulations provide for alternative ways of carrying out each of these requirements. In the following subsections we summarize the sponsors' survey responses concerning the procedures that they have actually used.

Determination of Provider Tier Status

One of the most important sponsor responsibilities required by the PRWORA changes is the classification of family child care homes into Tier 1 or Tier 2 status. A Tier 1 classification may be based on any one of three kinds of information: information about the provider's own income, information about the elementary school serving the area in which the provider is located, or information about the census block group in which the provider is located.

Use of all three classification approaches is evident in the sponsors' survey responses about the criteria under which their Tier 1 providers were qualified. Most sponsors (63 percent) had classified at least one provider as Tier 1 on the basis of elementary school status, as well as at least one on the basis of household income.¹² About one-fourth of sponsors qualified at least one provider for Tier 1 status on the basis of each of the three criteria.

Overall, classification on the basis of low-income elementary school attendance area was the most common (Exhibit 5). About 70 percent of all Tier 1 homes were qualified on this basis and 86 percent of sponsors had at least one home qualified in this way. Almost as many sponsors had at least one Tier 1 home qualified on the basis of the provider's household income, although this accounted for only about a quarter of the Tier 1 homes.

Census data were less commonly used, consistent with regulations indicating that sponsors should first consult elementary school data when making area-based classifications. School data are preferred because small-area census data are available only from the decennial Census, while school free and reduced price meal information is available annually. CACFP regulations indicate some circumstances when Census data may be preferable, such as situations in which busing or magnet schools result in school data being unrepresentative of the provider's area. Sponsors who used Census data to qualify at least one Tier 1 provider most often said that they used this approach because they operate in an area served by multiple elementary schools rather than a single school (Exhibit 6).

¹² Each Tier 1 provider is officially qualified on only one of the three criteria, but many in fact would be qualified under two or all three. See Crepinsek *et al.*, E-FAN-02-005.

Exhibit 5
Criteria Qualifying Homes as Tier 1

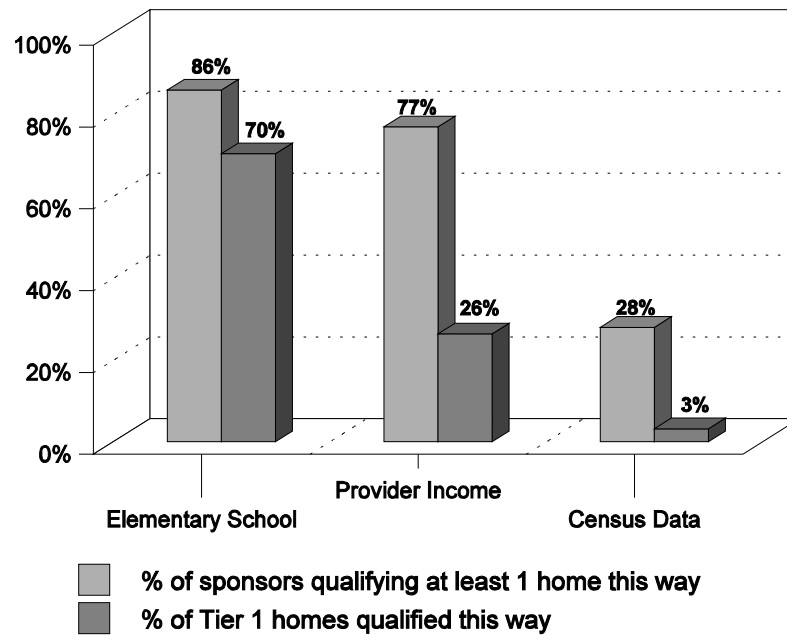


Exhibit 6
Circumstances in Which Sponsors Use Census Data Rather Than Elementary School Data to Qualify Homes as Tier 1^a

	Percent of Sponsors	Standard Error
Homes located in an area where residents can choose among several schools to attend	29.4%	4.0
Available school data includes students bused in from other areas	15.6	3.4
School serves a large rural area	12.0	2.2
Census data indicates pockets of low-income residences in an elementary school area	11.7	2.6
Homes located in area served by magnet or charter school	6.9	1.5
Other reason why Census data more accurately reflects area's poverty status	27.7	4.6
Unweighted sample	247	

^a Because sponsors may give more than one response, percentages sum to more than 100%.

As might be expected, sponsors with more homes and a more diverse portfolio of homes are more likely to use each of the three classification approaches (see Exhibit 7). This is particularly true of the approaches based on provider income and on the percent of low-income children in the census block group. Sponsors with large numbers of homes and those with any Tier 2 homes were substantially and significantly more likely than other sponsors to report using these two

Exhibit 7
Criteria Used to Qualify Providers for Tier 1 Status

	Percent of Sponsors qualifying at least one home on the basis of: ^a			
	Elementary School Data	Provider Income	Census Data	Unweighted Sample
Sponsoring Organization Type				
Private social service agency, nonprofit community agency, or charitable organization	91.6% (5.3)	88.8% (4.3)	34.6% (5.0)	170
Public social service agency	87.0 (10.1)	73.9 (14.7)	19.3 (9.1)	19
Military base	60.1 (14.5)	47.7 (15.1)	3.2 (3.3)	16
Other (School district, college/university, Church/religious organization, etc.)	97.3 (2.8)	40.8 (13.6)	40.8 (15.9)	19
Percent of Providers Classified as Tier 1				
Less than 67%	77.2 (9.3)	99.2 (0.8)	36.0 (6.6)	103
67 to 99%	85.9 (5.8)	90.6 (4.8)	32.4 (6.0)	106
100%	100.0 (0.0)	18.9 (7.9)	6.2 (6.0)	34
Number of Homes Sponsored				
Fewer than 30	67.4 (12.0)	44.9 (12.6)	7.1 (6.1)	22
30 to 200	90.3 (4.8)	82.7 (4.5)	25.9 (5.3)	105
More than 200	99.1 (0.9)	99.4 (0.6)	53.2 (5.7)	116

Standard error in parentheses.

a Because sponsors may use more than one approach, row percentages sum to more than 100%.

classification approaches. Most sponsors with only Tier 1 homes (who also tended to have relatively few homes) relied entirely on the elementary school area as the basis for tier classifications.

Information Provided to Sponsors for Tier Classification

Most sponsors said they get information that they use to make tier classifications from their State agency. Almost all sponsors (93 percent) received elementary school free and reduced price meals data, either alone (46 percent) or in combination with census block poverty data (47 percent). Only 7 percent of sponsors indicated that their State did not provide them with either type of information, and that they got the information themselves from other sources.

Sponsors received information in various forms, ranging from hard copy to computer files to physical maps. The vast majority of sponsors (87 percent) received paper copy lists of schools in their area with the required information on the proportion of students certified for free or reduced price meals. About a quarter reported getting maps or other information describing school attendance areas, which the sponsors used to determine in which school attendance area a particular provider is located. Sponsors who do not get attendance area information from the State must ask school officials for that information. The few providers who receive neither lists nor maps must obtain both school attendance area and free and reduced price meal data from school officials.

Frequency of Tier Classifications

Program regulations make a Tier 1 classification valid for one year if it is based on the provider's household income, for three years if it is based on school data, or until more current data are available if the classification is based on Census data. Most Tier 1 classifications are based on school data, and would therefore have to be re-examined every three years.

About half of the sponsors surveyed (48 percent) reported that they review in accordance with the three-year requirement for classifications based on school data. Nonetheless, 43 percent said that they review these classifications annually. This is somewhat surprising in view of the fact that sponsors consider this activity quite burdensome, as discussed in a later section. It is not known whether this frequent review is mandated by the sponsors' State agencies, whether sponsors conduct the review in order to maximize the opportunity to reclassify Tier 2 providers as Tier 1, or whether they find it more efficient to review all homes annually rather than having different homes on different review cycles. Whatever the reason, the practice of annual review allows for the most current information on low-income school attendance areas to be used in determining Tier 1 status.

Review frequencies vary somewhat across sponsor groupings, as shown in Exhibit 8. None of the differences are statistically significant, however.

Exhibit 8
Frequency of Review of Those Tier Classifications Based On Area Poverty Information

	Percent of Sponsors Conducting Reviews:		Unweighted Sample
	Yearly	Every Three Years	
Sponsoring Organization Type			
Private social service agency, nonprofit community agency or charitable organization	42.0% (6.3)	58.0% (6.3)	158
Public social service agency	52.2 (16.1)	47.8 (16.1)	14
Military base	34.7 (16.4)	65.3 (16.4)	11
Other (School district, college or university, Church/religious organization, etc.)	25.0 (11.5)	75.0 (11.5)	14
Percent of Providers Classified as Tier 1			
Less than 67%	38.9 (8.1)	61.1 (8.1)	95
67 to 99%	41.8 (8.0)	58.2 (8.0)	96
100%	58.4 (18.3)	41.6 (18.3)	12
Number of Homes Sponsored			
Fewer than 30	42.7 (16.3)	57.3 (16.3)	17
30 to 200	40.1 (8.1)	59.9 (8.1)	82
More than 200	51.0 (5.9)	49.0 (5.9)	110

Standard error in parentheses.

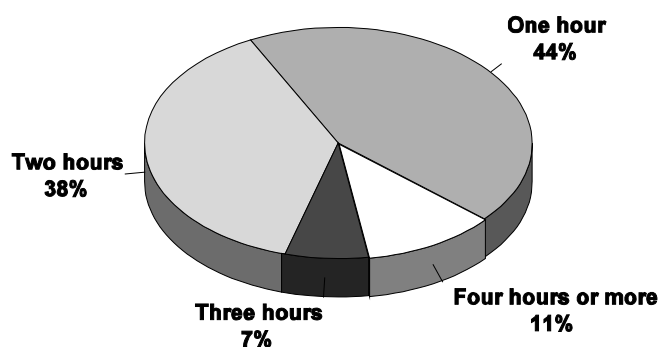
Staff Time Required for Tier Classification Based on Provider Income

In order to classify a home as Tier 1 based on provider income, the sponsor must obtain from the provider detailed information on the provider's household income as well as household size. The sponsor must then verify the information, and determine whether the provider meets the income or program participation criteria. The provider's household income must be at or below 185 percent of the Federal poverty guideline for the provider to qualify as Tier 1 on this basis. Annual review of the classification is required.

Sponsors who classify any providers as Tier 1 based on household income reported that completing this task takes an average of 2.2 person hours per provider. The median response was 2 hours, and around 90 percent of the responses were in the range from 1 to 3 hours (Exhibit 9). This time covers the tasks of information collection, verification, documentation, and record keeping.

We estimate that the process of qualifying homes as Tier 1 based on provider income requires several days of administrative work per year for sponsors. The average sponsor classifying any Tier 1 providers on the basis of income has 43 such homes. The median is considerably less, at 20 homes, but a small percentage of sponsors qualify 100 or more homes on this basis. Combining each sponsor's reported per-provider hours with the number of providers qualified, the annual time requirement is 68 hours on average, with a median of 35. A tenth of the sponsors are estimated to spend over 160 hours per year. These figures exclude time spent examining the circumstances of providers who fail to meet the criteria for Tier 1, and therefore represent lower-bound estimates of the work required for this task.

Exhibit 9
Distribution of Sponsors by Time to Complete a Tier 1 Classification Based on Provider Income



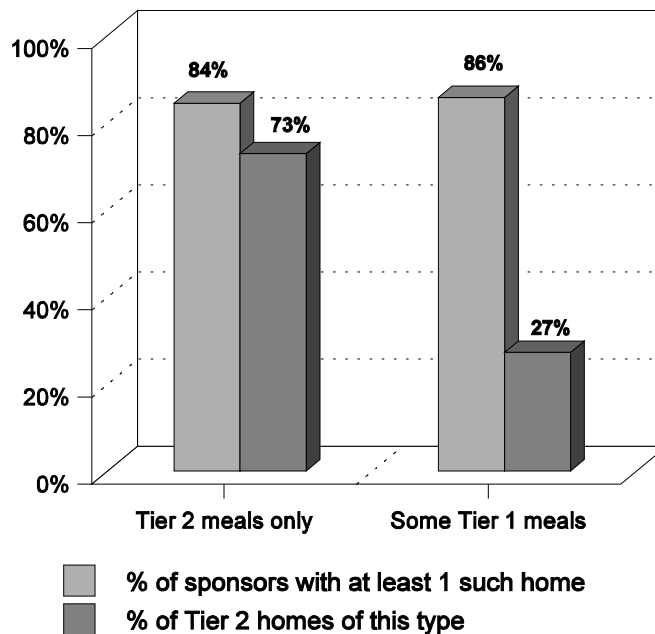
Determining Tier 1 Eligibility of Children in Tier 2 Homes

Tier 2 homes may receive meal reimbursements at the Tier 1 rate for meals served to children who meet the eligibility criteria. A household income at or below 185 percent of the Federal poverty guideline qualifies a child for Tier 1 reimbursed meals. Participation in specified assistance programs such as Food Stamps and TANF also confers categorical eligibility for Tier 1 reimbursed meals.

To avoid requiring the provider to obtain information about families' economic circumstances, the regulations call for the sponsor to make all determinations of household eligibility for Tier 1 reimbursement. Tier 2 providers have three options. First, they may ask their sponsors to obtain information on both income and assistance program participation from all families with children in their care. Second, providers may ask their sponsors to obtain program participation information, but not income information. Finally, providers may choose not to have the sponsor collect any information from families, in which case all children's meals are reimbursed at the Tier 2 rate.

About three-quarters (76 percent) of sponsors in the study have at least one Tier 2 home. Among those with at least one Tier 2 home, more than four out of five sponsors have both homes that receive only Tier 2 reimbursements and homes that are reimbursed for some or all of their meals at the Tier 1 level (Exhibit 10).

Exhibit 10
Tier 1 Reimbursements in Tier 2 Homes



Sponsors with Tier 2 homes report that an average of 27 percent of those homes have at least one child whose meals are reimbursed at the Tier 1 rate. This figure corresponds very well to national statistics from CACFP administrative data for fiscal year 1999, which show that 28 percent of all Tier 2 homes received some meal reimbursements at the Tier 1 rate.

Meal Count Systems for Tier 2 Homes

Sponsors are responsible for filing monthly reimbursement claims on behalf of their participating homes. For Tier 1 homes, and for Tier 2 homes in which all meals are reimbursed at Tier 2 rates, this is simply a matter of obtaining from each provider a count of the number of meals of each type (breakfast, lunch, etc.) served during the month. The process is more complicated for those Tier 2 homes that receive some reimbursements at the Tier 1 level. Because the provider does not know which children qualify for Tier 1 reimbursement, the sponsor must determine how many meals are to be reimbursed at each level.

The regulations allow three approaches to this task. One, called the actual meal count, is for the provider to submit to the sponsor a list of the meals served to each child during the month. The sponsor, who has the information on which children qualify for Tier 1 reimbursement, then determines how many meals of each type are to be reimbursed at each rate. The other two approaches, called “claiming percentages” and “blended rates,” involve estimating a general percentage distribution of Tier 1 and Tier 2 reimbursements for the provider. With these approaches, the provider does not have to report meals separately by child unless the State agency requires all sponsors to keep meal records and report by child.

Of those sponsors that have Tier 2 homes serving some Tier 1 rate children, almost all (94 percent) use the actual meal count system to make reimbursement determinations. Among the few using claiming percentages or blended rates, most use enrollment lists as the basis for establishing the split between Tier 1 and Tier 2 reimbursements.

Grants Supporting the Implementation of Tiering

Realizing that the introduction of tiering would require substantial effort from the sponsors, the PRWORA provided USDA with special funds to help State offices, sponsors of child care homes, and child care providers make the transition to tiering. USDA distributed the funding to the State offices. The State offices could retain up to 30 percent of the funds to cover their own costs of implementing tiering and were required to distribute the remainder to sponsors and homes that applied for assistance.

Almost half of sponsors (48 percent) received a family child care home grant or some other form of financial assistance to help in implementing tiering. For a fifth of sponsors, or 42 percent of those receiving a grant, the additional funds covered most or all of the sponsor’s expenses in implementing tiering (Exhibit 11). The remaining four-fifths of sponsors either received no funding (52 percent) or received funding covering “some” but not “most” of their expenses.

Those receiving any funding tended to be sponsors with a substantial share of Tier 2 homes and those with larger numbers of homes (Exhibit 12). Only 13 percent of the sponsors with no Tier 2 homes received grants, compared with 74 percent of sponsors with at least one-third Tier 2 homes. Similarly, sponsors with 200 or more homes were significantly more likely to report receiving grants than those with fewer homes.

Several factors might explain this uneven pattern of grant receipt. The larger sponsors might have greater information about the availability of funds, and presumably a greater need (i.e., faced a greater total amount of effort to determine the tier status of all of their providers). Sponsors with a substantial mix of Tier 1 and Tier 2 homes may be serving larger and more diverse geographic areas and therefore need to obtain school area information from more sources. These possible explanations are speculative, however, as the survey provides no direct information on sponsors' awareness of grant availability or on their reasons for pursuing or not pursuing grants.

Exhibit 11

Distribution of Sponsors by Extent of Tiering Expense Covered By Special Funding

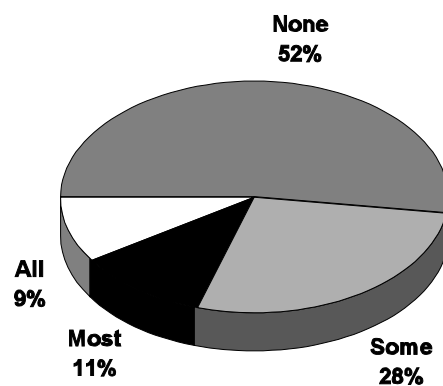


Exhibit 12
Receipt of Grants to Cover Expense of Implementing Tiering

	Percent of Sponsors with:			Unweighted Sample
	All/Most Expenses Covered	Some Expenses Covered	No Grant Received	
Sponsoring Organization Type				
Private social service agency, nonprofit community agency or charitable organization	24.2% (4.6)	38.0% (5.5)	37.8% (5.6)	187
Public social service agency	23.3 (10.4)	15.7 (7.9)	61.0 (12.9)	20
Military base	18.2 (10.9)	2.0 (2.1)	79.8 (11.1)	16
Other (School district, college or university, Church/religious organization, etc.)	2.6 (2.6)	22.8 (9.4)	74.7 (9.9)	21
Percent of Providers Classified as Tier 1				
Less than 67%	24.6 (6.0)	49.1 (7.6)	26.4 (7.5)	109
67 to 99%	24.6 (5.9)	22.6 (5.5)	52.8 (7.3)	107
100%	8.5 (4.6)	4.2 (2.6)	87.3 (5.3)	40
Number of Homes Sponsored				
Fewer than 30	4.3 (3.2)	25.6 (11.4)	70.2 (11.4)	29
30 to 200	24.5 (5.5)	18.9 (3.9)	56.6 (6.3)	113
More than 200	29.8 (5.6)	49.9 (5.7)	20.2 (4.8)	121

Standard error in parentheses.